Renewables fit for the market: can support schemes hold out against state aid requirements?

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AGENDA

- Introduction to CEER: Council of European Energy Regulators
- RES support schemes in view of the EAAG 2014-2020 requirements
1. Introduction to CEER

Council of European Energy Regulators

Voice of Europe's national energy regulators at EU and international level

Established in 2000

Not-for-profit organisation

Based in Brussels

8 permanent staff
1.1 Members

30 Members from:
All 28 EU Member States
+ Iceland and Norway

Observers from:
Switzerland
+ Former Yugoslav Republic of Macedonia (FYROM)
+ Montenegro and Kosovo
1.2 CEER aims and tasks

- The overall aim of CEER is to facilitate the creation of a **single, competitive, efficient** and **sustainable** internal market for gas and electricity in Europe.

- CEER acts as a platform for cooperation, information exchange and assistance between Europe’s NRAs and is their interface at **EU** and **international** level.

- Main tasks

<table>
<thead>
<tr>
<th>1. Exchange of best practice</th>
<th>•Basically all regulatory topics</th>
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<td>2. Training</td>
<td>•For regulatory staff</td>
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<td>•Cooperation with FSR</td>
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<td>3. Rulemaking/harmonisation</td>
<td>Non-binding recommendations e.g.</td>
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<td>•Distribution/retail</td>
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<td>•Consumers</td>
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<td>•Sustainability</td>
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<td>•Gas storage and LNG</td>
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<td>•Future challenges..</td>
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<td>4. Policy development</td>
<td>•Position papers and fact sheets</td>
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<td>•Contribution to EC consultations</td>
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<td>•Preparing amendments for EP</td>
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Introduction to CEER: Council of European Energy Regulators

RES support schemes in view of the EAAG 2014-2020 requirements
RES: A key part of the present energy market

- National RES support schemes successful in driving RES deployment: **27.45% of gross electricity production from RES in 2014**
- 20% in Gross Final Energy Consumption by 2020 likely to be reached
- More efforts from MS for 2020 RES-E target achievement (NREAPs)
- 27% RES target by 2030 plausible but demanding

Source: EUROSTAT

Model based projections on total RES in GFEC
Main support schemes’ features to date:

- National in scope;
- Largely based on feed-in tariffs;
- RES producers shielded from market price signals and balancing obligations (produce & forget);
- Support levels mainly determined administratively;

Source: ECOFYS 2013, not updated
Setting the Support Level for RES: Administrative vs Competitive procedure

- Administrative procedure
  - Increasingly perceived as inefficient
  - Main challenges:
    - Asymmetry of information
    - Complication due to various RES technologies with different maturity levels
    - Monitoring and reaction time for adjusting support level according to technological developments
  - Future prospects:
    - Still key-role where no competitive conditions exist
    - Deployment of mechanisms to better reflect market developments and needs (e.g. automatic reduction factor, breathing caps, etc.)
Setting the Support Level for RES: Administrative vs Competitive procedure

**Competitive procedure**

- Applicable only in a few MS (e.g. FR, UK, DE, NL).
- Objective: Cost efficient support levels based on competitive offers

**Main challenges**

- Competitive favourable conditions
- Investor confidence – stable investment environment
- Proper design to avoid strategic bidding and ensure diversity of bidders and realisation rates

**Future prospects:**

- To be introduced in all MS from 2017 on (EEAG - exceptions foreseen)
- Empirical assessment of realisation rates still pending
EEAG 2014-2020: setting the framework for RES support

• “Guidelines on State aid for environmental protection and energy 2014-2020 (EEAG)” issued on April 2014 - applicable from July 2014

• Clarify the assessment rules of state aid (SA) cases regarding compatibility with internal market (Art. 107(2&3) of the EU Treaty)

• Objective: incentivize market integration of electricity from RES and promote cost-effectiveness through market-based competitive mechanisms
EEAG 2014-2020 setting the framework for RES support

• General requirements for operational aid:
  ► To be granted as a premium on top of market price (FiP);
  ► Generators obliged to sell the electricity directly at the market;
  ► Beneficiaries subject to standard balancing responsibilities, unless no liquid intra-day market exists;
  ► Measures to ensure that generators have no incentive to generate electricity under negative prices;
  ► Quota systems compatible in evidence of
    • Systems necessity for support
    • Measures to prohibit overcompensation
    • Measures to ensures competitive behaviour
  ► From 2017 onwards, level of support determined via competitive bidding, preferably under technology neutral mechanisms
  ► Provisions for exceptions (small scale RES, evidence of ineffectiveness etc)
How do RES support schemes fit for the market?

**Feed-in Tariff**
- In general no integration of RES into the market.
- No reaction to price signals, “produce and forget”
- Proper design to ensure partial integration of RES in the market, i.e. balance responsibility

**Feed-in Premium**
- RES producers sell directly at the market
- RES producers financially responsible for imbalances
- Proper design to ensure RES are exposed to short term price signals, (fix, floating, with or without cap & floor)

**Certificate schemes**
- Certificate market settles level of market premium
- RES producers are exposed to market risks incl. balancing responsibilities and market price
Currently approved RES support schemes in EU

<table>
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<tr>
<th>Country</th>
<th>Case number</th>
<th>Case Title</th>
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<tr>
<td>Denmark</td>
<td>SA.37122</td>
<td>Aid to household wind turbines and offshore wind turbines with an experimental aspect</td>
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<tr>
<td></td>
<td>SA.36204</td>
<td>Aid to photovoltaic installations and other renewable energy installations</td>
</tr>
<tr>
<td>Estonia</td>
<td>SA.36023</td>
<td>Support scheme for electricity produced from renewable sources and efficient cogeneration</td>
</tr>
<tr>
<td>Germany</td>
<td>SA.38632</td>
<td>• EEG 2014 (Renewable Energy Sources Act 2014)</td>
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<td></td>
<td></td>
<td>• Support to 20 large offshore wind farms under the EEG Act 2014</td>
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<tr>
<td>Netherlands</td>
<td>SA.39399</td>
<td>Modification of Dutch SDE+ RES scheme</td>
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<tr>
<td>Portugal</td>
<td>SA.39347</td>
<td>Support scheme for experimental and pre-commercial renewable technologies</td>
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<tr>
<td>United Kingdom</td>
<td>SA.36196</td>
<td>Contract for Difference for renewables in UK</td>
</tr>
<tr>
<td>Italy</td>
<td>SA.43756</td>
<td>Support to electricity for renewable sources in Italy</td>
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Note: Non-comprehensive list; other cases may be pending
Energy Community perspective: Progress towards RES-E target

Energy Community Renewable Energy 2020 Targets

- **Albania**: 31.2% (38% 2020 RES target)
- **Bosnia and Herzegovina**: 34.0% (40% 2020 RES target)
- **Kosovo**: 18.9% (25% 2020 RES target)
- **FYR of Macedonia**: 21.9% (28% 2020 RES target)
- **Moldova**: 11.9% (17% 2020 RES target)
- **Montenegro**: 26.3% (33% 2020 RES target)
- **Serbia**: 21.2% (27% 2020 RES target)
- **Ukraine**: 5.5% (11% 2020 RES target)

Source: ECS, Annual Implementation Report 2015
Energy Community perspective: Current RES support schemes

- Based on ECS’ 2015 RES Progress Report
  - FiT schemes for most of the CPs
  - FiP introduced in Republika Srpska
  - Moldova: FiT calculated annually based on common methodology
  - Moldova to introduce tenders
  - Generally low investment rates in RES (except Ukraine)
  - FiT levels not very attractive but
  - Decisive role of administrative difficulties and related investors’ risks
Energy Community perspective: Progress towards RES-E target

- Significant effort by almost all CPs needed to reach 2020 RES targets
- Market reforms and RES support will still be necessary

Source: ECS, RES Progress Report 2015
02/06/2016
Energy Community perspective: EAAG 2014-2020 applicability

- Energy Community CPs are bound to comply with the *acquis* on Competition and State aid (Title II, Article 18, 19 and Annex III of the Treaty).
- Based on the ECS Policy Guidelines on the Applicability of the EEAG (November 2015)
  - CPs are obliged to apply EEAG to RES support schemes
  - ECS will follow the EEAG when assessing compatibility of environmental and energy aid with the functioning of the Energy Community
- Decisive factors
  - Status of competitive wholesale market opening (DAM, I-DM)
  - Tackling administrative difficulties
  - Introduction of competitive procedures
  - Enhance investor’s confidence
Thank you for your attention!

The full CEER report entitled “Key support elements of RES in Europe: moving towards market integration” can be downloaded from the following link:

http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Electricity

www.ceer.eu